RESEARCH REPORT

RISK MANAGEMENT AND INSURANCE IN ABORIGINAL COMMUNITIES: TWO CASE STUDIES

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Risk Management and Insurance in Aboriginal Communities: Two Case Studies

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EXECUTIVE SUMMARY

The cost of insurance is often three times higher in Aboriginal communities than in comparable non-Aboriginal communities. Research has shown that less than half of this extra cost can be justified because of the extra risks involved. It appears that insurance companies and brokers are unfamiliar with Aboriginal communities and thus tend to overestimate the risks, leading them to set the price of insurance policies very high.

But similarly, Aboriginal organizations may be unfamiliar with the field of insurance. Consequently, they may not appreciate that, in many cases, they could obtain better insurance coverage at a lower price. Although the insurance market is competitive, shopping for insurance in a competitive way requires considerable effort on the part of the buyer.

This report describes two examples of Aboriginal communities which took on the task. The 14 Inuit communities of the Kativik Regional Government in Nunavik used an independent risk management professional to assist them in obtaining insurance. The result was a decrease of 50 per cent in its cost, followed by a further reduction of 20 per cent two years later. The scope of the coverage was improved with the same broker and insurance company as before.

The Naskapi Band of Québec took the same approach. It saved some 70 per cent on the cost of insurance, while improving the quality of its coverage. Here, the broker and insurance company changed.

Risk management is a continuous and systematic series of activities with three distinct goals:

- to minimize the likelihood of accidents;
- to limit their severity; and
- to ensure that the pre-accident situation can be restored.

The first two goals are aimed at reducing the size of the overall risk. The two communities went through a careful documentation of the risks they might be exposed to (fire, flood, accidents, etc.). They carried out an exhaustive inventory of all their property and equipment. They made detailed lists of all the activities carried out by employees and agents. Then, they assessed how well prepared they were to deal with accidents and emergencies. They described the condition and maintenance of emergency equipment, the degree of training in using it and the existence of safety manuals for the communities' activities.

With this solid base, the communities then decided, with input from the risk management consultant, on the amount of insurance coverage they would need to meet the third goal of restoring the situation. For the two communities, as for most, insurance was the only possibility to provide the funds needed to restore the pre-existing situation after an accident. Having decided on the amount of needed coverage, the information was written up in the sort of language that insurance companies use, again with guidance from the consultant.

With this knowledge—the precise coverage that is wanted, the assets and activities that must be insured, and the preventive and protective measures available to minimize losses—any insurance company was now in a position to make an informed estimate of the risk involved. The problem of insurance companies being unfamiliar with Aboriginal communities had been addressed.

The two communities had, like most, previously purchased their insurance through a single broker. However, the key to purchasing better insurance at a lower price is to force brokers and insurance companies to compete with one another through a controlled call for bids. Based on the preferences of the Aboriginal communities, a number of brokers were asked to provide bids. Each broker was provided with the same terms of reference and was required to deal with a single insurance company, selected, as much as possible, on the basis of being that broker's preferred company. This system was carried out by the risk management consultant who was independent of all brokers and insurance companies, being paid by the Aboriginal organization. The remaining problem of making the competitive market work to the benefit of the buyer had been addressed.

Finally, after the bids were received, they were analyzed by the consultant for price and terms and conditions. Based on this, the communities made their decision to award the insurance contract with the savings described earlier.

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1.0 INTRODUCTION

Unlike the situation in the United States, where the Indian housing authorities created the Amerind Risk Management Corporation as long ago as 1986, few hard data are available concerning risk management and insurance in Aboriginal communities in Canada. One study (Raymond, Chabot, Martin, Paré et Cie, 1990) concluded, however, that insurance premiums on reserves were up to three times higher than those charged to comparable non-Aboriginal communities, and that only about one half of that differential could be attributed objectively to ascertainable differences in risks.

Anecdotal commentary from risk management professionals, based on work in Aboriginal communities in many regions of Canada, suggests that one contributory factor is the unfamiliarity of most brokers and insurance companies with Aboriginal communities. Most of the news brokers hear about them is controversial. That, of course, leads the brokers and insurance companies to overestimate the frequency and severity of the risks which, in turn, results either in high premiums or, as was the case with the Innu of Davis Inlet in 1993, a refusal to issue insurance policies.

The unfamiliarity of many Aboriginal communities and organizations with an organized approach to risk management, in general, and with the various ways in which insurance policies can be acquired undoubtedly complicates the situation further.

Over the last 20 years, federal, provincial, territorial and Aboriginal governments have invested huge sums in improving housing stocks and municipal infrastructure and equipment. In most areas of the country, regional and local Aboriginal governments and organizations are assuming ever-increasing responsibility for planning and managing their own affairs. Coupled with the foregoing, the high rate of population increase has resulted in a rapid expansion in the size and sophistication of many Aboriginal communities, and a dramatic growth in the variety and magnitude of the responsibilities assumed by Aboriginal governments, businesses and other organizations.

Most Aboriginal organizations are sensitive to the importance of protecting themselves against risks and of putting in place measures to overcome the occasional accidents that are inevitable. Thus, most communities have police forces, firefighters and insurance policies, and an increasing number are developing emergency response plans. In many cases, however, responsibility for the various aspects of risk management is divided among different individuals or authorities, which can result in a lack of coordination, a duplication of effort and the overlooking of some elements of risk management. In the specific area of insurance, the research suggests that many Aboriginal organizations regularly pay significantly more than comparable non-Aboriginal organizations and that their coverage is frequently incomplete.

There have been, of course, exceptions to the preceding generalization, including the self-insurance program operated by the James Bay Crees of Québec (J. Blacksmith and P. Gull, personal communications) and the services offered by First Nations General Insurance Inc. in Saskatchewan in the early 1990s (Raymond, Chabot, Martin, Paré et Cie, 1990), but they are relatively rare.

The present report describes two instances where different Aboriginal communities have succeeded in breaking the pattern of too costly insurance coverage through the adoption of a comprehensive risk management approach. To better understand how the approach differs from the more commonly found method of obtaining insurance, the report begins with a review of the basic principles and practice of risk management.

2.0 RISK MANAGEMENT

Introduction

The principles and practices of risk management are set out in numerous textbooks (e.g., Courtot, 1998; Dourlens et al.,1991; Hood and Jones, 1996; Pfaffle, 1976; Vaughan, 1997). The following section is not a comprehensive discussion of risk management; rather, it attempts only to provide an overview of some of the basic concepts and practices to assist the reader in appreciating the significance of the case studies presented in Chapter 3.

From one point of view, almost all our activity is directed toward achieving goals, which are as varied as the individuals or organizations pursuing them and may be trivial or serious. By definition, a goal is something that it is hoped will happen, perhaps sooner, perhaps later. To illustrate, if we wished to go to a meeting at the community centre, a trip of only a few minutes, the goal in question would be attained rapidly. On the other hand, if we wished to buy and maintain a house for our family, the goal would take longer to achieve, and would have to be sustained. In both cases, an effort would be required to achieve the goal. Clearly, achieving some goals requires a much greater effort than achieving others.

All our activities run the risk of unforeseeable events and accidents that get in the way of achieving our goals. Continuing with our examples, a car accident that occurred on the way to the community centre could have consequences, not only for the driver who misses an appointment there, but also more serious ones for a third party who was injured as a result. Similarly, a fire that destroyed the family home would cause a huge loss for the owner and the occupants, even if no one was killed or injured.

Knowing that unforeseeable events can occur, reasonable persons act with prudence to increase the chances of achieving their chosen goals. Nevertheless, no matter how many precautions are taken, accidents will occur anyway, and reasonable persons will also take steps to ensure that they can deal with them and can restore the situation that existed before an accident, that is, minimize any loss.

Restoring the situation that existed before an accident occurred will always entail an unwanted cost, beyond that which was anticipated at the outset. Continuing further with our examples, when we decided to drive to the community centre, we did not plan on paying for expensive repairs to the car as a result of an accident en route, let alone being sued by the victim of the accident. Similarly, when we buy a house we expect to have to pay a mortgage, but not to have to pay to rebuild the entire house after a major fire. The question that arises, then, is how does one find the necessary resources to restore the pre-accident situation?

The preceding paragraphs illustrate briefly some of the basic hypotheses that underlie risk management. Risk management is a planned and disciplined exercise that begins by recognizing the presence of danger and the fact that no one is protected from unforeseen events. Its second step is a deliberate choice to act prudently at all times. Finally, it involves taking measures to ensure that, if an accident occurs, the victim has the necessary resources to restore the pre-existing conditions.

Risk management is equally important for all individuals and organizations. In Aboriginal communities this includes band councils, tribal councils, police forces, national Aboriginal organizations and private Aboriginal businesses. Like a person, an organization, whether it is for-profit or not-for-profit, sets itself a goal. For example, the goal of a band council might be to govern a community and to ensure that essential services, such as water, sewage and housing, are delivered. National Aboriginal organizations, on the other hand, might aim to represent the interests of their members with regard to such matters as federal laws, policies and programs..

Like individuals, organizations usually have limited means with which to accomplish their missions. That is especially true for Aboriginal organizations that depend for funding on grants or contributions from the federal or provincial governments. In some cases, the costs of recovering from a major accident might exceed the means of the organization, thereby endangering its survival or exhausting scarce resources that should have been used for other, more important purposes. For example, a community council that has to rebuild its office after a fire may be forced to reduce the programs and services it offers to its members.

The balance of this text focusses on organizations, including communities, but the principles and processes that it describes are equally valid for individuals.

The Elements of Risk Management

Any program of risk management has three basic elements: measures to prevent accidents, tools for limiting their extent when they do occur and means to restore the situation after an accident.

Preventing accidents

Obviously, it is impossible to plan and implement measures to avoid accidents unless you know what kinds of accidents are likely to occur. Thus, the first step in developing a risk management program is to analyze the types of risk that might occur and to evaluate the possibility of their occurrence. The types of risk vary according to the activities of the organization. In the case of local governments, they are usually varied and important: public buildings might burn down, houses could be flooded, soil might be contaminated by a fuel oil leak, a community-owned vehicle might be involved in an accident or the sewage pumping station might be disabled.

The extreme isolation of many Aboriginal communities, coupled with the severe climates that many of them experience, lends a special dimension to the analysis of risk. When accidents happen, every community member can be affected, property can be threatened, and vital health and technical services might be inaccessible, particularly if, as is often the case, an emergency occurs during a prolonged storm. Many Aboriginal communities are located in forested areas. That creates a special risk of forest fires, since some provincial governments do not have an organized firefighting system for non-commercial forests.

In the case of a national Aboriginal organization, the risks are very different. For example, it might wish to protect itself against the danger of losing valuable papers as a result of a fire, or against the danger that one of its employees might steal a large amount of money.

In all cases, however, the basic questions that need to be answered in a risk analysis include the following.

- Where are accidents likely to happen?
- When might they happen?
- Who would suffer as a result of them?
- Which buildings or equipment might be damaged?
- How often are they likely to occur?
- How serious are they likely to be?

It must never be forgotten, however, that even the most sophisticated risk analysis cannot give firm or complete answers to those questions, for the simple reason that no one can foretell the future. Risk analysis is, however, helpful in identifying the kinds of accidents that might occur and the probability of their occurrence.

Once the types of accidents that might occur are known, it is possible to plan how to prevent them. Ideally, accident prevention should be practised at every stage of any project or activity. For example, when a building is designed, it should respect all applicable fire and safety

codes. During construction, it should be inspected regularly to ensure that those codes are actually respected. Once it is built, such things as safety exits, alarms, sprinkler systems and fire extinguishers should be checked regularly. Similarly, the qualifications and experience of heavy equipment operators should be checked before they are hired, and the vehicles should be inspected regularly. At the administrative level, accounting systems should be designed to be as fraud-proof as possible, and managers should check references before hiring personnel and require frequent financial reports.

Limiting the extent

The least expensive accident is the one that never happens. Any organization interested in minimizing the likelihood of accidents must therefore study every aspect of its operations and establish appropriate procedures to reduce the probability of accidents. Rather than taking the fatalistic attitude that accidents are bound to happen, organizations should adopt a proactive attitude and look for ways to avoid them. No matter how well prepared an organization is, it is still a virtual certainty that accidents will occur sooner or later.

It is important, therefore, to reduce the negative consequences of accidents to a minimum. Obviously, it is cheaper to rebuild a single house than to rebuild a whole series of houses along the same street. Thus, a community that has well-trained and well-equipped firefighters may not be able to avoid every fire, but it is certainly better able to limit the extent of the damage than a community that has no firefighters. A firebreak around a community in a forest, or a system of channels and levees around a flood-prone community, may not protect it entirely, but will almost certainly reduce the scale of damage. The most important asset of any community is, of course, its members, and measures should always be in place to protect their health and safety. For example, some communities are organized to feed and shelter the entire population in the school or another large building in the event of a catastrophe.

Restoring the situation to its former condition

Even with the best possible plans to avoid accidents and to limit their bad effects, some accidents will occur. It is essential, therefore, to put in place mechanisms to restore conditions to their pre-accident status. In the case of a building that is destroyed by flood or fire, that means finding the money to rebuild it and to accommodate its occupants until the new building is ready. For an organization that is sued successfully for negligence, it means finding the money to pay the award in damages without causing the organization to cease or reduce seriously its activities.

There are only two ways to finance the cost of restoring the pre-existing situation: use the organization's own money or use money from an outside source, namely by means of an insurance policy. Since few Aboriginal organizations are rich enough to assume the cost of rebuilding after accidents, the report focusses only on insurance as a means to that end.

An insurance contract is simply a transfer of financial responsibility, meaning that the insurer assumes the responsibility of the organization that experiences a loss or accident to pay some or all of the costs of restoring the pre-existing situation. Property can be insured, as can responsibility or liability. Liability insurance protects an organization against such things as the negligence of its employees. One example would be injury to a third party as a result of careless driving by one of its employees.

Even though an organization acquires insurance, it must continue to manage its affairs prudently. An insurance contract is not a licence to neglect measures for avoiding and limiting risks. An insurer would quickly realize if an organization relaxed its standards of prudence, and that organization would pay higher premiums, or even find that it could no longer obtain insurance.

In a monopolistic world without any competition, choices are simple. If an essential, everyday item is produced by only one company, a monopoly

situation, that company can ask any price it wishes. If demand for the product is high, its price is likely to increase. In such a situation, the only choice available to consumers is either to buy or not to buy the product. If, however, a second company markets an identical product, the choice of the consumer is greater, and the two producers come under pressure to lower their prices as much as possible without losing money. In this situation vis-à-vis the price of insurance, the limits to how low prices can go are set by the real cost of the risk, and the real cost is a product of the actual frequency and extent of accidents. The price of an insurance policy is called the premium.

The insurance market is not a monopoly. Insurance companies are numerous, as are the products they offer. The procedure to obtain insurance coverage should resemble the steps a wise person who wishes to buy a car should follow, namely to visit several dealers to compare prices and products. The existence of competition in the field of insurance gives the consumer the luxury of being able to get the best possible product at the best possible price, which is entirely compatible with the overall objective of minimizing the costs associated with accidents.

It is not always easy to compare the cost of insurance policies, since they may offer different types of protection and contain different limits and exclusions. In any case, they are written in very complex language that non-experts cannot easily understand. Advice is usually desirable. An insurance policy is a legally binding document that is written in a language chosen by the insurer. The insurer chooses each word of the policy with great attention, based on its long experience in underwriting risks and taking into consideration the voluminous jurisprudence on such matters. Thus, the insured is in a position of weakness in relation to the insurer.

The style and complexity of insurance policies, coupled with the multiplicity of exclusions, make them very difficult for ordinary persons to understand, especially when their mother tongue is neither English nor French. It is not realistic to translate insurance policies into Aboriginal languages because of the technical language they use.

It is easy to think of insurance premiums as an expense rather than as an investment, since the likelihood of receiving money back from them is not known at the time of payment (money will be received only if an accident occurs). Consequently, many organizations make little effort to understand the precise scope and nature of their insurance policies, particularly when they have the same policies year after year and rarely make any claims against them.

Obtaining Insurance

Insurance policies are not usually sold directly by insurance companies. Rather, insurance policies are sold by agents, known as brokers. The broker is the traditional link between Aboriginal clients and insurance companies. Indeed, the relationship between the insured and the insurer is, in practice, conducted by the broker. The broker is paid by the insurer, however, not by the insured, usually in the form of a commission, which is a percentage of the premium paid by the insured. Commissions are established on the basis of certain conventions. The size of the commission is agreed in advance between the insurer and the broker. The higher the premium paid by the client, the higher the commission paid by the insurance company to the broker.

The balance of this report focusses on a different way in which Aboriginal organizations can purchase insurance. In the two case studies, an independent risk management consultant was retained by two Aboriginal organizations to lower the cost and improve the quality of their insurance coverage. Risk managers can provide advice on any aspects of their field, not only obtaining insurance but also analyzing risks, inspecting buildings, and developing and implementing emergency response plans. While very large organizations may actually employ risk management professionals on a full-time basis, for most Aboriginal organizations it is cheaper

to retain the services of an independent risk management professional on a consulting basis.

The relationship between an independent consultant and the client is very different from the broker-client relationship. Like the broker, the independent consultant has a duty of professional integrity. Unlike the broker, however, the independent consultant owes loyalty only to the client. Also, the client has more contractual and legal opportunities to obtain objective advice from an independent consultant than from a broker.

3.0 CASE STUDIES

Introduction

The Kativik Regional Government and the Naskapi Band of Québec illustrate the types of benefits that very different types of Aboriginal organizations can derive through the use of a risk management approach.

In both cases, the communities decided to retain an independent risk management consultant. The consultant was required to demonstrate a good knowledge of the field of insurance, prior experience in an Aboriginal context, total independence from all insurance companies and brokers, and proof of professionalism. The consultant was paid a fee by each of the groups but did not receive a percentage of the sums eventually saved by those organizations.

The two cases illustrate eloquently how it is within the power of Aboriginal communities and organizations to change the misconceptions that many brokers and insurance companies have about them, while at the same time saving large sums of money for other community purposes.

Kativik Regional Government

The Kativik Regional Government was created pursuant to the James Bay and Northern Québec Agreement, signed in 1975. It is a public corporation that exercises numerous governmental powers and provides technical and administrative support over most of the territory of Québec north of the 55th parallel of latitude, known as Nunavik. Nunavik contains 14 Inuit municipalities. The Council of the Kativik Regional Government has one elected representative from each of those 14 communities, plus one representative of the Naskapis of Québec. The Naskapis are represented because they have a municipality north of the 55th parallel of latitude, although there is no community there.

The total population of Nunavik is approximately 10,000. The size of the communities ranges from under 200 persons in the cases of Aupaluk and Tasiujaq to almost 2,000 in Kuujjuaq, but most communities have populations of between 400 and 600 persons.

All the communities are extremely isolated. Kuujjuaq and Kuujjuarapik have paved landing strips and are served daily by jets. The other communities have shorter, usually gravel-surfaced, landing strips and are served by such aircraft as the HS-748. None of the communities is accessible by road, and most goods have to be imported by boat during the short summer.

There is a regional police force and a regional school board, which operates schools in every community. Kuujjuaq and Puvirnituq have hospitals, and each of the other communities has a modest clinic. Nevertheless, many forms of treatment require the evacuation of patients to Montréal or Québec City.

All the communities have the basic municipal services. Electricity is provided by diesel generators, while water is delivered and sewage is collected by truck; basic firefighting equipment is in place, operated by volunteer firefighters; telecommunications, including telephone, telecopier and e-mail, generally work well. All the communities have several television and radio channels, including a community radio.

Before 1994, each of the 14 villages was insured independently, but through the same broker and by the same insurance company. Like other municipalities in Québec, the Inuit communities are required by law to return regularly to the insurance market, to benefit from changing market conditions. Nevertheless, the geographic isolation of the communities, the fact that they acted independently of one another, the multitude of renewal dates of their policies,

and the perception held by their insurers of the risks of insuring isolated Inuit communities resulted in a situation in which there was virtually a captive relationship between the broker and the communities.

In 1995, the Inuit communities decided to retain, through the Kativik Regional Government, the services of an independent consultant, Optimum Risk Management Inc. of Montréal, to assist them in obtaining collective liability and property insurance coverage. The technique they employed at the suggestion of that consultant was to issue a call for bids.

The call for bids had two principal sections. The first identified the risks. It contained descriptions of:

- the demographic and geographical characteristics of each village;
- the technical details of the goods to be insured;
- a detailed description of the municipal infrastructure;
- a description of the civil protection equipment and other means of protection; and
- a delineation of the activities, roles and responsibilities of the municipal authorities.

The second part of the bid document described:

- the insurance needs of the communities, including the insurable value of each building;
- the additional guarantees required;
- the special conditions;
- renunciations to certain exclusions; and
- acceptable deductibles.

Finally, it described, in detail, the forms and texts that must be used in the insurance policy.

In addition to the insurance broker who held the portfolio at that time, three brokerage companies, recommended by the consultant on the basis of their competence, and accepted by the client, were invited to bid. The procedure employed required that each broker be allocated certain insurance companies in advance in order to spread the net as widely as possible in the insurance market.

Results

The result of the bid exercise was a reduction of approximately 50 per cent compared with the premiums paid previously. Despite the significant reduction in cost, the new program actually offered improved coverage. Interestingly, the lowest bid was received from the broker and the insurance company that had previously insured the client at almost double the cost.

As required by law, another call for bids was held in 1997. That exercise resulted in a further reduction of 21 per cent. Overall, the Kativik Regional Government reduced its cost of insurance by over 60 per cent simply as a result of retaining an independent consultant to assist it in obtaining insurance coverage.

When purchasing insurance, as is the case with purchasing virtually any good or service, volume is a powerful lever to obtain cost savings. By combining their efforts, the 14 Inuit communities of Nunavik were able to obtain spectacular savings, while at the same time improving the scope of their insurance coverage.

Naskapi Band of Québec

The Naskapi Band of Québec offered a very different challenge, since it is the only member of its nation and is not affiliated with any larger tribal council or similar entity.

Created in 1984 under the *Cree-Naskapi (of Québec) Act*, the Naskapi Band of Québec is the successor to the Naskapis de Schefferville Band created under the *Indian Act* in 1971. It numbers approximately 700 members, most of whom live at Kawawachikamach, slightly south of the 55th parallel of latitude in northeastern Québec.

Kawawachikamach was built between 1980 and 1983 pursuant to Section 20 of the Northeastern Québec Agreement, the comprehensive land

claims settlement signed in 1978 by the Naskapis, the governments of Canada and Québec, and certain other parties. It is, therefore, one of the most modern and technologically sophisticated villages in northern Canada.

Water is supplied by buried pipe to every building in the community. Buried sewage pipes lead to two aerated lagoons constructed in 1998. Electricity comes from the Menihek Generating Station, a hydro-electric plant located some 50 kilometres south of Kawawachikamach. Some buildings, including the water pumping station and the dispensary, have emergency generators.

A corporation known as the Naskapi Village of Kawawachikamach operates a local police force, which has its own free-standing building. There are streetlights and fire hydrants throughout the community, which also has a fully equipped fire truck. There is a dispensary with a dental surgery, X-ray equipment and two observation beds. The services of a doctor and several nurses are available 24 hours per day.

Kawawachikamach is connected to Schefferville, some 15 kilometres distant, by a gravel road that is kept open 24 hours per day. Schefferville has a 1,524 metre (5,000-foot), paved landing strip. Scheduled air service links it to Sept-Îles. There is also a rail service to Sept-Îles, which offers a weekly passenger and freight service. With the exception of electronic mail, Kawawachikamach is well served in the area of telecommunications.

The Band is the owner of all housing in the community, some 110 units, most of which are free-standing, single-family units. As the owner of the houses, it is, responsible for insuring them.

The Band paid considerable attention to minimizing risks when it designed and built Kawawachikamach, and it has always been sensitive to the importance of having comprehensive insurance coverage.

In 1997, the Council nevertheless decided to undertake an evaluation of the cost and comprehensiveness of its insurance coverage. Being aware of the work of Optimum Risk Management Inc for the Kativik Regional Government, it decided to retain its services. Out of courtesy, it informed its insurance broker of its decision, which resulted in an immediate reduction in its insurance premium of almost 10 per cent.

The independent consultant found that the Band's insurance coverage was generally adequate, but that there were some important areas in which it could be improved. It also concluded that a call for bids might result in a modest reduction in the premiums paid by the Band.

Results

The Band retained the same consultant to conduct the call for bids, which was organized in essentially the same manner as that for the Kativik Regional Government. The outcome was a surprising reduction of over 60 per cent in the cost of the premium. When combined with the earlier reduction of 10 per cent, the net result was that the Band was paying approximately 70 per cent less for insurance than it had been paying one year earlier. The only significant adjustment made by the Band was to increase slightly certain deductibles, which, in any case, had been unrealistically low. In this case, the insurance portfolio was awarded to a new broker and a new insurance company.

The Band was sufficiently impressed by the consultant that it retained its services to provide advice on the preparation of an emergency response plan for the community and to assist it in processing large insurance claims.

4.0 METHODS EMPLOYED

The two case studies cited above employed similar methodologies, which have been written up in the form of guidelines below.

Visits to the communities and meetings with the client are an essential part of most of the steps, and they also help to establish mutual trust and respect between the client and the consultant. The consultant makes recommendations to the client at various stages in the process, but it is always the client who takes decisions.

Identification and Analysis of Risks

This step involves reviewing all the characteristics of the organization in question, whether it is a local government or a private Aboriginal business. The material circumstances that must be reviewed include the property, equipment and machinery used by the organization in discharging its responsibilities. A detailed inventory must be prepared to establish the value of each item to be insured. The physical circumstances of the community, including climate, geography, forest cover, topography, and the presence of rivers and tidal waters, are other factors that influence the types of risks to which it might be exposed.

The human circumstances are no less important. Here, it is a question of identifying the activities carried out on behalf of the organization by its elected officials, employees, contractors, volunteers and consultants. Human activities can cause damage to goods as well as to other persons, thereby exposing the organization to claims from third parties who believe they have been harmed. The same is true for the organization itself, which could experience harm as a result of the behaviour of one of its agents. The roles, responsibilities and competence of each representative of the organization are therefore reviewed to provide a clear picture of their respective responsibilities.

Analysis of Preventive Measures

The purpose of this exercise is to evaluate the effectiveness of the protective and preventive equipment and measures in place. For example, do fire trucks, fire hydrants, alarm systems, emergency generators and similar equipment actually work? Good equipment is of little use, if the employees operating it are badly trained. Evaluating the expertise of the organization's personnel is, therefore, a crucial part of this analysis. Finally, such things as operating manuals, safety codes and even the working habits of employees are reviewed to identify any deficiencies.

The outcome of this exercise is a detailed report that is provided to the client for follow-up. The consultant usually needs to spend several days in the community or organization in order to carry out the required analysis.

Developing a Coverage Plan

After the first two steps have been completed, the information that is needed to design an insurance coverage plan that provides the best possible protection for the organization is available. The plan itself is prepared by a multi-disciplinary team within the consultant's organization, which may include actuaries, engineers and specialists in civil protection. The practical experience of the consultant is of vital importance at this stage to ensure the best possible coverage plan. The data collected about the client's organization, the consultant's knowledge of the range of available insurance products and the precedents the consultant has experienced in other files are adapted to meet the special requirements of the client.

Selection of Brokers and Allocation of Markets

The next step is to select several brokers to respond to the call for bids. They are recommended to the client by the consultant on the basis of their reputation for integrity, their demonstrated competence and their relevant experience, which preferably includes Aboriginal experience. In the case of the Naskapi Band, the Council wished to invite one broker who was unknown to the consultant, because that broker was particularly familiar with northeastern Québec. The consultant was in full agreement with that wish, because the choice of brokers must take into account the preferences of the client as well as purely technical or economic considerations. In any case, the system of calls for bids introduces competition not only between insurers, but also between brokers, thereby protecting the client against abuses. In the case of the Naskapi Band, the lowest bid was received from the broker recommended by the Council, and the contract was awarded to that broker.

Each broker who replies to the invitation to bid must indicate a limited number of insurance companies on which he intends to rely for the purposes of the bid. A single insurance company is then allocated to each broker, respecting, wherever possible, their expressed preferences. If insurance companies were not allocated to brokers, each broker would try to reserve as many insurance companies as possible, thereby prohibiting those insurance companies from collaborating with other brokers. That would, of course, reduce the likelihood that the client would obtain the best possible price and coverage. Thus, allocating insurance companies to brokers is a vital step that ensures open and honest competition between the brokers, to the benefit of the client.

Preparation of Terms of Reference

All the information obtained from the organization during the risk analysis and from questionnaires distributed at the beginning of the consultant's mandate are synthesized to form the basis of the terms of reference, a copy of which is given to each broker who has indicated an interest in bidding.

The terms of reference are a voluminous and important document that contains a complete description of the risks to be insured. It describes the demographic and geographic circumstances of the organization, the property, machinery and equipment, the municipal infrastructure, the emergency response plan and emergency equipment, and the activities, roles and responsibilities of the organization. It also describes the organization's needs in terms of insurance, including the insurable value of each building or other property, any additional guarantees that are required, any special conditions that the client desires, renunciations to certain exclusions and information on proposed deductibles. To make it easier for the insurance companies to form a fair judgment of the risks they will be insuring, photographs, plans of the community, as-built drawings of buildings and technical specifications of equipment are appended to the terms of reference. Finally, the terms of reference specify the insurance forms that must be used, although the insurance companies can suggest alternatives that are better for the client.

The terms of reference are sent to all the interested brokers, provided they have submitted proof that they themselves are covered by a liability insurance policy.

Analysis of Bids

All the bids received are opened at the same time. If the client wishes, its representatives can be present at the opening of bids. The bids are then analyzed by the consultant on the basis of cost and scope of coverage. The consultant submits to the client a detailed evaluation of

each bid, accompanied by a recommendation as to which bid should be accepted. Thus, all the relevant information is available to the client when making a decision.

Awarding of Contract

When so instructed by the client, the consultant informs the successful broker and asks it to issue temporary coverage for the client until the detailed policies are prepared by the insurance company.

Follow-Up

On receipt of the policies from the insurance company, the consultant checks them and advises the client whether they are correct and complete. Errors and omissions can occur without any bad faith on the part of the insurance company or the broker, but they can be very expensive for a client learning after an accident that it is not actually insured against the accident which took place.

In many cases, the client also asks the consultant to assist in processing claims. In some cases, such as the Naskapi Band of Québec, the client handles smaller claims itself, while the consultant handles larger ones. Experience showed that insurance companies tend to settle claims faster and more fully when the client is represented by a risk management professional.

Review

The insurance market, in general, and individual insurance companies, undergo constant change. Thus, it is in the best interests of Aboriginal organizations to repeat the process of issuing a call for bids every three or four years. The experience of the Kativik Regional Government showed that a call for bids only two years after the original call for bids resulted in a further saving of 20 per cent.

5.0 CONCLUSIONS

Risk management should be a constant endeavour for all Aboriginal organizations and for each of their employees. Many aspects of risk management can be performed by Aboriginal organizations without external assistance. The area of insurance is, however, frequently an exception. Insurance companies often have a poor understanding of the risks in Aboriginal communities and organizations, which they consequently tend to overestimate. For their part, Aboriginal organizations often have a poor understanding of the insurance market. Traditionally, insurance brokers, who are paid by the insurance companies whose policies they sell, have occupied the role of intermediary.

The two case studies describe what happened when an independent risk management consultant, paid directly by the Aboriginal organizations, was brought in. One Aboriginal organization was a large Inuit organization representing some 14 remote villages and 10,000 persons. The other was a single, isolated community of less than 700 persons. The consultants documented the risks and the risk containment measures in a fashion with which insurance companies would be familiar. Then they organized a bidding process in which the full benefits of competition could be realized.

In both cases, the involvement of an independent consultant in risk management produced significant cost savings and an improvement in the quality of insurance coverage. In one case, the broker and insurance company that produced the best bid changed but, in the other, the previous broker and insurance company stayed on—at much lower cost.

While it is not possible to draw broad conclusions from just two case studies, there appears to be two lessons that could have wider application. One has to do with correcting the perception of many insurers that risks are extraordinarily high in Aboriginal communities. The other is that while the insurance market is competitive in theory, it takes an effort to make it competitive in practice. Before committing to a specific course of action, Aboriginal organizations would be well advised to review their insurance coverage and to check whether it is comprehensive and fairly priced. If it is, no further action may be needed.

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